

**REPORT OF THE AUDIT OF THE
BELL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BELL COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Bell County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Governmental Fund Type

Fund balances decreased by \$553,531 from prior year. Even though fund balances decreased, there was a cash surplus of \$3,328,722 as of June 30, 2003. Of this amount, \$547,086 is reserved for the completion of Local Government Economic Development grant capital projects. Revenues decreased by \$2,040,260 over prior year. The decrease is attributed primarily to non-recurring federal grant receipts and lease proceeds that were received during the prior year. In addition, expenditures decreased by \$3,575,915 over prior year. The decrease in expenditures is primarily attributed to non-recurring capital projects disbursements and federal grant expenditures that were expended during the prior year.

Proprietary Fund Type

Fund balances decreased by \$9,884 from the beginning of year. However, there was a cash surplus of \$15,238 as of June 30, 2003.

Debt Obligations:

Total bonded debt principal as of June 30, 2003, was \$5,780,000. Future collections of \$10,883,931 are needed over the next 25 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$658,065 as of June 30, 2003. Future principal and interest payments of \$795,896 are needed to meet these obligations.

Report Comments:

- The County Lacks Adequate Segregation Of Duties
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Deposits:

The fiscal court's deposits were not insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
BELL COUNTY OFFICIALS	3
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY ARISING FROM CASH TRANSACTIONS	6
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE.....	12
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES – PROPRIETARY FUND TYPE	17
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE	21
NOTES TO FINANCIAL STATEMENTS	22
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE	33
SCHEDULE OF OPERATING REVENUE.....	37
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES	41
SCHEDULE OF OTHER EXPENDITURES	45
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	49
COMMENTS AND RECOMMENDATIONS	53
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable William Kelley, Bell County Judge/Executive
Members of the Bell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Bell County, Kentucky, as of June 30, 2003, the statement of cash receipts, cash disbursements, and changes in cash balances – governmental fund types; the statement of cash receipts, cash disbursements and changes in cash balances – proprietary fund; and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Bell County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Bell County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Bell County, Kentucky, as of June 30, 2003, and its receipts and disbursements, and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable William Kelley, Bell County Judge/Executive
Members of the Bell County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2004, on our consideration of Bell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Bell County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The County Lacks Adequate Segregation Of Duties
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 3, 2004

BELL COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

William Kelley	County Judge/Executive
Charles Hunter	Magistrate
John D. Brock	Magistrate
David E. Gilbert	Magistrate
Coye Silcox	Magistrate
Andy Williams	Magistrate

Other Elected Officials:

William Neal Ward	County Attorney
James J. Hoskins	Jailer
Joan Asher Cawood	County Clerk
Charles Green	Circuit Court Clerk
Bruce Bennett	Sheriff
Geraldine Jeffers	Property Valuation Administrator
Clyde Creech	Coroner

Appointed Personnel:

Sharon Taylor	County Treasurer
---------------	------------------

THIS PAGE LEFT BLANK INTENTIONALLY

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

BELL COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	<u>Governmental Fund Type</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	<u>\$ 2,030,441</u>	<u>\$ 794,842</u>	<u>\$ 503,439</u>
Total Assets	<u>\$ 2,030,441</u>	<u>\$ 794,842</u>	<u>\$ 503,439</u>
<u>Other Resources</u>			
Amounts to Be Provided in Future Years for:			
Capital Lease Obligation (Note 4)	\$ 642,077	\$ 15,988	\$
Bond Payments (Note 7)			<u>5,276,561</u>
Total Other Resources	<u>\$ 642,077</u>	<u>\$ 15,988</u>	<u>\$ 5,276,561</u>
Total Assets and Other Resources	<u><u>\$ 2,672,518</u></u>	<u><u>\$ 810,830</u></u>	<u><u>\$ 5,780,000</u></u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

<u>Proprietary Fund Type</u>	<u>Totals (Memorandum Only)</u>
<u>Enterprise</u>	
<u>\$ 15,238</u>	<u>\$ 3,343,960</u>
<u>\$ 15,238</u>	<u>\$ 3,343,960</u>
 <u>\$</u>	 <u>\$ 658,065</u>
	<u>5,276,561</u>
<u>\$</u>	<u>\$ 5,934,626</u>
<u>\$ 15,238</u>	<u>\$ 9,278,586</u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

	Governmental Fund Type		
	General	Special Revenue	Capital Projects
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Lease Obligation (Note 4)	\$ 642,077	\$ 15,988	\$
Bonds:			
Series 2000 (Note 7)			5,780,000
Total Liabilities	<u>\$ 642,077</u>	<u>\$ 15,988</u>	<u>\$ 5,780,000</u>
<u>Equity</u>			
Retained Earnings:			
Unrestricted	\$	\$	\$
Fund Balances:			
Reserved		794,842	
Unreserved	2,030,441		
Total Equity	<u>\$ 2,030,441</u>	<u>\$ 794,842</u>	<u>\$</u>
Total Liabilities and Equity	<u>\$ 2,672,518</u>	<u>\$ 810,830</u>	<u>\$ 5,780,000</u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

<u>Proprietary Fund Type</u>	<u>Totals (Memorandum Only)</u>
<u>Enterprise</u>	
\$	\$ 658,065
	<u>5,780,000</u>
<u>\$</u>	<u>\$ 6,438,065</u>
\$ 15,238	\$ 15,238
	794,842
	<u>2,030,441</u>
<u>\$ 15,238</u>	<u>\$ 2,840,521</u>
<u>\$ 15,238</u>	<u>\$ 9,278,586</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

BELL COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,928,885	\$ 1,015,008	\$ 371,937	\$ 539,491
Other Financing Sources:				
Transfers In	20,000		350,000	
Total Cash Receipts	<u>\$ 1,948,885</u>	<u>\$ 1,015,008</u>	<u>\$ 721,937</u>	<u>\$ 539,491</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,947,167	\$ 842,042	\$ 759,799	\$ 286,313
Other Financing Uses:				
Schedule of Other Expenditures				
Transfers Out				350,000
Bonds:				
Principal Paid				
Interest Paid				
Ambulance Lease Principal Payment				
Lease Principal Payment	87,900			
Total Cash Disbursements	<u>\$ 2,035,067</u>	<u>\$ 842,042</u>	<u>\$ 759,799</u>	<u>\$ 636,313</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (86,182)	\$ 172,966	\$ (37,862)	\$ (96,822)
Cash Balance - July 1, 2002*	<u>1,090,181</u>	<u>431,369</u>	<u>153,514</u>	<u>403,277</u>
Cash Balance - June 30, 2003*	<u><u>\$ 1,003,999</u></u>	<u><u>\$ 604,335</u></u>	<u><u>\$ 115,652</u></u>	<u><u>\$ 306,455</u></u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH BALANCES – GOVERNMENTAL FUND TYPE
For The Fiscal Year Ended June 30, 2003
(Continued)

Special Revenue Fund Type					
Ambulance Service Fund	Insurance Premium Tax Fund	Abandoned Mine Land Water Projects Fund	Local Economic Development Fund	State Grant Fund	Federal Grant Fund
\$ 662,844	\$ 482,691	\$ 29,000	\$ 357,500	\$ 189,476	\$ 56,623
120,673					
\$ 783,517	\$ 482,691	\$ 29,000	\$ 357,500	\$ 189,476	\$ 56,623
\$ 725,849	\$ 362,019	\$ 29,000	\$ 865,881	\$ 194,824	\$ 69,599
20,000	120,673				
12,002					
\$ 757,851	\$ 482,692	\$ 29,000	\$ 865,881	\$ 194,824	\$ 69,599
\$ 25,666	\$ (1)	\$	\$ (508,381)	\$ (5,348)	\$ (12,976)
217,582	11		1,055,467	5,348	17,474
\$ 243,248	\$ 10	\$ 0	\$ 547,086	\$ 0	\$ 4,498

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES – GOVERNMENTAL FUND TYPE
 For The Fiscal Year Ended June 30, 2003
 (Continued)

	Capital Projects Fund Type	Debt Service Fund Type	
	Public Properties Corporation: Judicial Building Project Fund	Cumberland Gap Provisions Revolving Loan Fund	Totals (Memorandum Only)
<u>Cash Receipts</u>			
Schedule of Operating Revenue	\$ 421,017	\$ 82,111	\$ 6,136,583
Other Financing Sources:			
Transfers In			490,673
Total Cash Receipts	<u>\$ 421,017</u>	<u>\$ 82,111</u>	<u>\$ 6,627,256</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$	\$ 82,111	6,164,604
Other Financing Uses:			
Schedule of Other Expenditures	6,250		6,250
Transfers Out			490,673
Bonds:			
Principal Paid	90,000		90,000
Interest Paid	329,358		329,358
Ambulance Lease Principal Payment			12,002
Lease Principal Payment			87,900
Total Cash Disbursements	<u>\$ 425,608</u>	<u>\$ 82,111</u>	<u>\$ 7,180,787</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (4,591)	\$	\$ (553,531)
Cash Balance - July 1, 2002*	<u>508,030</u>		<u>3,882,253</u>
Cash Balance - June 30, 2003*	<u>\$ 503,439</u>	<u>\$ 0</u>	<u>\$ 3,328,722</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES – PROPRIETARY FUND TYPE

BELL COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES – PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Fund Type</u>
	<u>Jail Canteen</u>
<u>Cash Receipts</u>	<u>Fund</u>
Receipts - Jail Canteen	\$ 16,621
	<u> </u>
<u>Cash Disbursements</u>	
Expenditures - Jail Canteen	\$ 26,505
	<u> </u>
Total Cash Disbursements	\$ 26,505
	<u> </u>
Deficiency of Cash Receipts Under Cash Disbursements	\$ (9,884)
Cash Balance - July 1, 2002	25,122
	<u> </u>
Cash Balance - June 30, 2003	\$ 15,238
	<u> </u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

BELL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Funds</u>
	<u>Jail Canteen</u>
Cash Flows From Operating Activities:	
Cash Received From Inmate Sales	\$ 16,621
Payments to Suppliers	<u>(26,505)</u>
Net Cash Used By Operating Activities	<u>\$ (9,884)</u>
Reconciliation of Operating Loss to	
Net Cash Used by Operating Activities:	
Operating Loss	<u>\$ (9,884)</u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Bell County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity. Based upon the criteria stated in GASB 14, management has included the Public Properties Corporation: Judicial Building Project Fund as part of the reporting entity.

Public Properties Corporation: Judicial Building Project

The Public Properties Corporation: Judicial Building Project (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

Additional - Bell County Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

Kentucky law provides for election of the above officials from the geographic area constituting Bell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Bell County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Bell County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Bell County Special Revenue Fund Type includes the following county funds: The Ambulance Service Fund, Insurance Premium Tax Fund, Abandoned Mine Land Water Projects Fund, Local Economic Development Fund, State Grant Fund, and Federal Grant Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds of the Cumberland Gap Provisions Revolving Loan Fund.

4) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Public Properties Corporation: Judicial Building Project Fund is reported as a Capital Projects Fund Type. The Public Properties Corporation: Judicial Building Project Fund will be classified as a Capital Projects Fund Type as long as it relates to the construction of a new judicial building. After the construction of the facility is completed, this fund will be reclassified as a Debt Service Fund Type.

5) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Bell County Enterprise Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund. All profit expenditures were for the benefit and/or recreation of the inmates.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Bell County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation: Judicial Building Project Fund (Capital Projects Fund). The Governor's Office for Local Development does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BELL COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$138,166 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2002.

	<u>Bank Balance</u>
Insured by FDIC	\$ 100,000
Collateralized with securities held by pledging depository institution in the county's name	3,003,528
Uncollateralized and uninsured	<u>138,166</u>
Total	<u>\$ 3,241,694</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Capital Lease Agreements

A. Ambulance Capital Lease

On December 1, 1999, the county entered into a lease agreement with GEM Capital Corporation for the purpose of obtaining an ambulance. Terms of the lease agreement stipulate 20 quarterly payments in the amount of \$3,335. As of June 30, 2003, the principal balance remaining was \$15,988. Future lease payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 742	\$ 12,699
2005	47	3,289
	<u>\$ 789</u>	<u>\$ 15,988</u>

B. Waterline Capital Lease Agreements

The county has entered into four capital lease agreements with the Kentucky Association of Counties Leasing Trust Program for the construction of various waterlines. The following is a description of the terms of each lease agreement:

- 1) The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in October 1993, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2003, the principal balance remaining was \$99,000. Future lease payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 5,265	\$ 8,000
2005	4,825	8,000
2006	4,361	9,000
2007	3,821	9,000
2008	3,348	10,000
2009-2013	<u>8,039</u>	<u>55,000</u>
Totals	<u>\$ 29,659</u>	<u>\$ 99,000</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Capital Lease Agreements (Continued)

B. Waterline Capital Lease Agreements (Continued)

- 2) The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in May 1995, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2003, the principal balance remaining was \$37,000. Future lease payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 2,072	\$ 12,000
2005	1,295	12,000
2006	491	13,000
Totals	<u>\$ 3,858</u>	<u>\$ 37,000</u>

- 3) The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in September 1995, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2003, the principal balance remaining was \$56,000. Future lease payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 3,382	\$ 4,000
2005	3,133	4,000
2006	2,884	4,000
2007	2,635	4,000
2008	2,386	4,000
2009-2013	7,724	24,000
2014-2016	809	12,000
Totals	<u>22,953</u>	<u>\$ 56,000</u>

BELL COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 4. Capital Lease Agreements (Continued)

B. Waterline Capital Lease Agreements (Continued)

- 4) The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in March 1998, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2003, the principal balance remaining was \$297,177. Future lease payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2004	\$ 15,412	\$ 33,000
2005	13,573	35,000
2006	11,647	36,000
2007	9,644	38,000
2008	5,389	41,000
2009-2011	<u>11,688</u>	<u>114,177</u>
Totals	<u>\$ 67,353</u>	<u>\$ 297,177</u>

C. Voting Machine Capital Lease Agreement

The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program during January 2002. The lease proceeds were used to acquire 40 voting machines. Terms of the agreement stipulate a five-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2003, the principal balance remaining was \$152,900. Future lease payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2004	\$ 5,597	\$ 36,200
2005	4,105	37,500
2006	2,560	38,800
2007	<u>957</u>	<u>40,400</u>
Totals	<u>13,219</u>	<u>\$ 152,900</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Long-term Debt

On July 1, 2000, the Bell County Public Properties Corporation issued bonds in order to construct the Farmer Helton Judicial Building. On the same day, the Bell County Public Properties Corporation, Administrative Office of the Courts, (AOC) and the county entered into a lease agreement for the purpose of obtaining office rental space for the AOC at the Judicial Building. The financing plan for the project is as follows:

Bell County and the Public Properties Corporation are acting as agents for the AOC in order to plan, design, construct, manage and maintain the Judicial Building. The Public Properties Corporation and the county expect annual rentals for use of the Judicial Building to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the Judicial Building by the AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until September 1, 2028, but the lease does not legally obligate the AOC to do so.

As of June 30, 2003, the principal balance remaining was \$5,780,000. Future bond payments are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 324,501	\$ 95,000
2005	319,383	100,000
2006	314,001	105,000
2007	308,358	110,000
2008	302,451	115,000
2009-2013	1,411,834	680,000
2014-2018	1,199,925	900,000
2019-2023	908,321	1,205,000
2024-2028	494,318	1,640,000
2029	24,278	830,000
Totals	<u>\$ 5,607,370</u>	<u>\$ 5,780,000</u>

BELL COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 6. Commitments and Contingencies

In August 1999, Bell County received a Single-County Local Government Economic Development Fund Grant in the amount of \$800,000, which was assigned to the Bell County Industrial Foundation for disbursement to the Cumberland Gap Provision Company in the form of an \$800,000 loan. This loan was for a period of ten (10) years at three percent (3%) interest. Monthly interest only payments were due for the first three (3) years of the loan term. At the end of that three (3) year period, \$100,000 of the principal amount of the loan was forgiven, based on the Company's degree of compliance with the terms of the jobs requirement, and the remaining balance is being amortized at an interest rate of three percent (3%) per annum over the remaining life of the loan, to be repaid in equal consecutive monthly payments of principal and interest. Cumberland Gap Provision Company pays the note payments to the Bell County Industrial Development Foundation, which pays the payments over to the county, and the county pays the payments over to the Kentucky Economic Development Finance Authority. Upon default of the loan agreement, the Cumberland Gap Provision Company, The Bell County Industrial Foundation, and the Bell County Fiscal Court can be responsible for repayment to the Kentucky Economic Development Finance Authority. As of June 30, 2003, Cumberland Gap Provision Company was in substantial compliance with the terms of the loan agreement.

Principal Balance Due County at June 30, 2003

\$639,448

Note 7. Insurance

For the fiscal year ended June 30, 2003, Bell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Local Economic Development Fund

The ending cash balance of Local Government Economic Development Fund was \$547,086 as of June 30, 2003. This amount is reserved for the completion of capital projects. The Department for Local Government authorized certain capital construction projects for local administration from the coal severance tax project plan of House Bill 502. These projects were not completed at fiscal year end. As of July 1, 2002, the grant balance was \$1,055,467. During fiscal year ended June 30, 2003, the county received grant receipts totaling \$357,500 and expended grant disbursements totaling \$865,881. The ending balance was \$547,086 as of June 30, 2003.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

BELL COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,707,951	\$ 1,928,885	\$ 220,934
Road and Bridge Fund	929,540	1,015,008	85,468
Jail Fund	741,903	371,937	(369,966)
Local Government Economic Assistance Fund	207,356	539,491	332,135
<u>Special Revenue Fund Type</u>			
Ambulance Service Fund	711,600	662,844	(48,756)
Insurance Premium Tax Fund	362,250	482,691	120,441
Abandoned Mine Land Water Project Fund	29,000	29,000	
Abandoned Mine Land Laurel Fork Water Project Fund	600,000		(600,000)
Local Economic Development Fund	1,528,054	357,500	(1,170,554)
State Grant Fund	222,072	189,476	(32,596)
Federal Grant Fund	593,928	56,623	(537,305)
<u>Debt Service Fund Type</u>			
Cumberland Gap Provision Revolving Loan Fund	82,995	82,111	(884)
Totals	<u>\$ 7,716,649</u>	<u>\$ 5,715,566</u>	<u>\$ (2,001,083)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 7,716,649
Add: Budgeted Prior Year Surplus			2,100,870
Less: Other Financing Uses			<u>(99,902)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 9,717,617</u>

THIS PAGE LEFT BLANK INTENTIONALLY

SCHEDULE OF OPERATING REVENUE

BELL COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

Revenue Categories	GOVERNMENTAL FUND TYPE				Totals (Memorandum Only)
	General Fund Type	Special Revenue Fund Type	Capital Projects Fund Type	Debt Service Fund Type	
Taxes	\$ 1,027,379	\$ 482,633	\$	\$	\$ 1,510,012
In Lieu Tax Payments	17,336				17,336
Excess Fees	79,552				79,552
Licenses and Permits	30,259				30,259
Intergovernmental Revenues	2,427,953	632,404	395,246		3,455,603
Charges for Services	47,075	659,097			706,172
Miscellaneous Revenues	134,579	3,942	27	81,994	220,542
Interest Earned	91,188	58	25,744	117	117,107
Total Operating Revenue	<u>\$ 3,855,321</u>	<u>\$ 1,778,134</u>	<u>\$ 421,017</u>	<u>\$ 82,111</u>	<u>\$ 6,136,583</u>

THIS PAGE LEFT BLANK INTENTIONALLY

COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

BELL COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,349,648	\$ 1,230,354	\$ 119,294
Protection to Persons and Property	804,662	764,923	39,739
General Health and Sanitation	287,590	93,619	193,971
Social Services	11,300	10,075	1,225
Recreation and Culture	78,790	75,790	3,000
Transportation Facilities and Services	51,022	40,879	10,143
Roads	1,043,833	783,939	259,894
Debt Service	36,292	36,292	
Administration	902,489	799,450	103,039
Total Operating Budget - General Fund Type	\$ 4,565,626	\$ 3,835,321	\$ 730,305
Other Financing Uses:			
Capital Lease Agreement-			
Principal on Lease			
Hances Creek Waterline	8,000	8,000	
Highway 92 Waterline	11,000	11,000	
Little Clear Creek Waterline	3,000	3,000	
Hutch Brownies Creek Waterline	31,000	31,000	
Voting Machine	34,900	34,900	
TOTAL BUDGET - GENERAL FUND TYPE	\$ 4,653,526	\$ 3,923,221	\$ 730,305

BELL COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

SPECIAL REVENUE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 2,485,251	\$ 890,827	\$ 1,594,424
Protection to Persons and Property	977,631	946,172	31,459
General Health and Sanitation	1,216,500	79,000	1,137,500
Debt Service	1,340	1,339	1
Capital Projects	222,072	189,477	32,595
Administration	166,202	140,357	25,845
Total Operating Budget - Special Revenue Fund Type	\$ 5,068,996	\$ 2,247,172	\$ 2,821,824
Other Financing Uses: Ambulance Lease- Principal	12,002	12,002	
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 5,080,998</u>	<u>\$ 2,259,174</u>	<u>\$ 2,821,824</u>

DEBT SERVICE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
Debt Service	<u>\$ 82,995</u>	<u>\$ 82,111</u>	<u>\$ 884</u>

SCHEDULE OF OTHER EXPENDITURES

BELL COUNTY
SCHEDULE OF OTHER EXPENDITURES

For The Fiscal Year Ended June 30, 2003

<u>Expenditure Items</u>	<u>Public Properties Corporation Judicial Building Project Fund</u>
Construction	\$ 4,500
Administrative Fees	<u>1,750</u>
Totals	<u><u>\$ 6,250</u></u>

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William Kelley, Bell County Judge/Executive
Members of the Bell County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Bell County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated November 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Bell County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and is described in the accompanying comments and recommendations.

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bell County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Bell County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comments and recommendations.

- The County Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 3, 2004

COMMENTS AND RECOMMENDATIONS

BELL COUNTY
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2003

REPORTABLE CONDITION

The County Lacks Adequate Segregation Of Duties

There is a lack of adequate segregation of duties relating to ambulance mail receipts because one person is solely responsible for opening mail receipts, posting mail receipts and depositing mail receipts. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. However, having one individual who is responsible for these duties increases the risk that misstatements or errors may occur and not be detected in a timely manner. The county should consider delegating some duties to other employees to help strengthen internal controls over ambulance mail receipts. For example, persons who have no access to cash receipts or accounts receivable should open mail and list receipts. Another person could record payments. We recommend that the county develop and implement procedures to help strengthen the internal control structure over ambulance mail receipts.

County Judge/Executive William Kelley's Response:

Because of such a small staff we are studying ideas to correct this oversight. We feel we will be able to delegate some duties to others in the near future.

NONCOMPLIANCE

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On August 31, 2002, \$138,166 of the county's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times

County Judge/Executive William Kelley's Response:

To the best of my knowledge this has been taken care of and should not be a problem in the future.

PRIOR YEAR FINDINGS

- Lacks Adequate Segregation Of Duties
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

THIS PAGE LEFT BLANK INTENTIONALLY

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

BELL COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

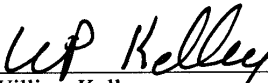
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

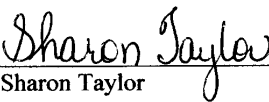
BELL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Bell County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



William Kelley
County Judge/Executive



Sharon Taylor
County Treasurer

